

AR20

SOGEPET LIMITED



1970
ANNUAL REPORT

OBSERVATIONS

Much of the Hudson Bay Sedimentary Basin is covered by the waters of Hudson Bay. The area of this inland sea is approximately one quarter million square miles, as large as the Province of Alberta or State of Texas and larger than the North Sea.

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The onshore Paleozoic sediments of the Hudson Bay coastal lowlands and the James Bay lowlands are believed to be locally up to 4,000 feet thick.

The offshore Paleozoic sediments in the central part of the Hudson Bay Basin are believed to be up to 10,000 feet thick.

* * *

It has been established that the Ordovician, Silurian and Devonian equators all passed through the Hudson Bay region. From a hydrocarbon exploration viewpoint this could be significant since some scientists believe that the best place to find oil is in the past equatorial zones of less than 20° latitude.

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Hudson Bay oil exploration has been setting several industrial "firsts". The two major offshore seismic programs performed by the Aquitaine-Arco Group in 1968 and 1970 each "shot" 3,000 line miles of refraction surveys, believed to be world record mileages for this type of survey.

The same Group's Hudson Walrus A-71 offshore well, drilled half-way to its planned depth in 1969 and located in the approximate centre of Hudson Bay, is believed to be the first offshore well drilled in an Arctic Sea.

* * *

Industry estimates of the hydrocarbon potential of the Hudson Bay Basin, based on sedimentary volume calculations, have ranged from 3 billion barrels of oil and 17 trillion cubic feet of gas (in 1968) to 9 billion barrels of oil and 55 trillion cubic feet of gas (in 1971).

The exploration problem, of course, is the locating of reservoirs containing appreciable fractions of these total theoretical figures.

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SOGEPET LIMITED

Head Office
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Toronto 5, Ontario, Canada

DIRECTORS

DOUGLAS A. BERLIS, Q.C.

JAMES P. MANLEY, Q.C.

WILLIAM F. MITCHELL

JOHN J. JODREY

DR. FRANC. R. JOUBIN

JOSEPH SEDGWICK, Q.C.

OFFICERS

DR. FRANC. R. JOUBIN, *President*

WILLIAM F. MITCHELL, *Vice-President*

MRS. C. A. WOLF, *Secretary-Treasurer*

LEGAL COUNSEL

MANLEY, GRANT & CAMISSO

TRANSFER AGENT

GUARANTY TRUST COMPANY OF CANADA

AUDITORS

LAVENTHOL KREKSTEIN HORWATH & HORWATH

SOGEPET LIMITED

Directors' Report

TO THE SHAREHOLDERS OF SOGEPET LIMITED:—

The year under review, 1970, was an active one for our Company. Our total exploration activities for oil and gas were directed to the Hudson Bay region of Canada.

We continued to add to our holdings during the year. The attached map and table present details.

Our Company acquired from Camerina Oil and Gas Limited a 6.25% undivided interest in the Atlantic Richfield, Aquitaine et al Group's offshore permit blocks of 52,881,447 gross acres and an additional 6.25% undivided interest in the Aquitaine, Sogepet et al Group's permit blocks of 5,501,015 gross acres, subject to a gross over-riding royalty payable to Camerina on all petroleum substances produced from the subject permits.

We also acquired from French Petroleum Company of Canada Limited an additional 12.5% undivided interest in the Aquitaine, Sogepet et al Group's permit blocks in the James Bay Lowlands area of 3,585,000 gross acres, subject to a gross over-riding royalty payable to French Petroleum on all petroleum substances produced from the subject permits.

Principal field activities during 1970 consisted of an extensive and locally detailed seismic survey performed over the offshore permit blocks; the drilling of the Pen No. 2 "slim hole" well on the Ontario Hudson Bay coastline; interpretation of the 1969 geophysical program over the north islands near-offshore permits and studies for "slim hole" drilling in this region; completion and interpretation of an aero-magnetic survey over the south-eastern offshore permits and planning for the Sandbank No. 1 "slim hole" well to be drilled in the James Bay Lowlands during the 1970-71 winter.

Technical results continued encouraging and the Aquitaine Company, as Operator for the Atlantic Richfield et al Group, has announced intentions for a two-season drilling program of several deep offshore wells, starting date still under study.

It is a pleasure to record our thanks to our several Group Operators and to R. D. Johnson, our Consulting Geologist and Calgary Office manager, for their able management of our several joint programs during the year.

On behalf of the Board of Directors,

FRANC. R. JOUBIN,
President.

February 26, 1971.

SOGEPET LIMITED

AUDITORS' REPORT

To the Shareholders of
Sogepet Limited

We have examined the balance sheet of Sogepet Limited as at December 31, 1970 and the statements of deferred exploration and administrative expenditures, deficit and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the Company as at December 31, 1970 and its activities and the source and application of its funds for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

LAVENTHOL KREKSTEIN HORWATH & HORWATH
Chartered Accountants.

February 15, 1971.

SOGEPE

(Incorporated under the law of the State of New York)

Balance Sheet

ASSETS

	December 31,	
	1970	1969
CURRENT:		
Cash	\$ 24,623	\$ 26,479
Deposit receipts	575,000	675,000
Other short-term investment, at cost	—	71,690
Accrued interest	23,210	19,575
Due from participant in joint ventures	—	4,998
Work deposits refundable	40,339	—
Miscellaneous	300	300
	<u>663,472</u>	<u>798,042</u>
Work deposits on petroleum and natural gas exploratory permits (Note 1)	89,813	122,336
	<u>753,285</u>	<u>920,378</u>
CAPITAL ASSETS:		
Interests in petroleum and natural gas exploratory permits, at cost (Note 2)	52,485	53,065
Deferred exploration and administrative expenditures	949,199	755,029
	<u>1,001,684</u>	<u>808,094</u>
Less net proceeds from sale of interest in petroleum and natural gas exploratory permits	317,500	317,500
	<u>684,184</u>	<u>490,594</u>
Organization expenses	12,740	12,740
	<u>\$1,450,209</u>	<u>\$1,423,712</u>

See accompanying notes

LIMITED

(Incorporated in the Province of Ontario)

Sheet

LIABILITIES

	December 31,	
	1970	1969
CURRENT:		
Accounts payable	\$ 36,483	\$ 12,198
Contingent liability (Note 1)		

SHAREHOLDERS' EQUITY

CAPITAL (Note 3):		
Authorized:		
2,000,000 Common shares, without par value		
Issued and fully paid:		
1,414,803 Shares (1969 — 1,411,053 shares)	1,454,540	1,451,728
DEFICIT	40,814	40,214
	<u>1,413,726</u>	<u>1,411,514</u>

Approved on behalf of the Board of Directors:

FRANC. R. JOUBIN (Director).

WILLIAM F. MITCHELL (Director).

<u>\$1,450,209</u>	<u>\$1,423,712</u>
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SOGEPET LIMITED

DEFERRED EXPLORATION AND ADMINISTRATIVE EXPENDITURES

	Year Ended December 31,	
	1970	1969
GROUP EXPLORATION EXPENDITURES:		
Petroleum and natural gas acreage:		
Exploratory well drilling and related costs	\$ 297,210	\$ 316,966
Geophysical surveys	1,938,547	115,145
	2,235,757	432,111
Less other participants' share	2,045,137	358,979
Company's share of expenditures	190,620	73,132
Engineering and geological services	21,390	14,125
Government fees and taxes	3,698	701
Telephone and telegraph	1,146	761
Miscellaneous	485	222
	217,339	88,941
Mineral acreage:		
Field salaries	—	2,000
Geochemical survey	—	12,621
	—	14,621
Less other participant's share	—	10,966
	—	3,655
Total exploration expenditures	217,339	92,596
Add administrative expenditures, per schedule	38,807	53,235
	256,146	145,831
Less interest income	61,976	53,198
Total expenditures for the year	194,170	92,633
Balance deferred at beginning of year	755,029	535,162
	949,199	627,795
Add exploratory well drilling and related costs, previously shown as a separate item on the balance sheet (a reclassification)	—	150,071
	949,199	777,866
Less expenditures on mineral acreage abandoned	—	22,837
Balance at end of year	\$ 949,199	\$ 755,029

SOGEPET LIMITED

STATEMENT OF DEFICIT

	December 31,	
	1970	1969
Balance at beginning of year	\$ 40,214	\$ 17,027
ADD:		
Cost of petroleum, natural gas and mineral exploration permits abandoned	600	350
Expenditures thereon	—	22,837
Balance at end of year	<u>\$ 40,814</u>	<u>\$ 40,214</u>

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

SOURCE OF FUNDS:

Issue of capital stock	\$ 2,812	\$1,037,500
Net decrease of work deposits	32,523	—
	<u>35,335</u>	<u>1,037,500</u>

APPLICATION OF FUNDS:

Exploration and administrative expenditures	194,170	92,633
Acquisition of interest in petroleum and natural gas exploratory permits	20	33,622
Work deposits on petroleum and natural gas and exploratory permits	—	122,336
	<u>194,190</u>	<u>248,591</u>
Increase (decrease) in working capital	(158,855)	788,909
Working capital (deficiency) at beginning of year	785,844	(3,065)
Working capital at end of year	<u>\$ 626,989</u>	<u>\$ 785,844</u>

SOGEPET LIMITED

SCHEDULE OF ADMINISTRATIVE EXPENDITURES

	Year Ended December 31,	
	1970	1969
Office rent and administrative services	\$ 7,088	\$ 6,200
Manager's salary (Calgary)	7,500	3,000
Directors' fees	500	675
Legal and audit	7,586	17,680
Annual meeting expenses	2,723	2,340
Printing prospectuses	—	5,879
Public relations and shareholders' information	3,679	7,634
Transfer agent's fees and expenses	2,030	4,636
Telephone	1,583	1,059
Travel	3,707	1,710
Government fees and taxes	332	1,004
Miscellaneous	2,079	1,418
	<u>\$ 38,807</u>	<u>\$ 53,235</u>

SOGEPET LIMITED

NOTES TO FINANCIAL STATEMENTS

December 31, 1970

1. WORK DEPOSITS AND CONTINGENT LIABILITY:

Bank deposit receipts in the amount of \$82,000 have been pledged as security to the bank who has guaranteed \$122,169 of the Company's promissory notes deposited with government departments in lieu of cash work deposits. These notes will be returned to the Company in amounts equal to the allowable expenditures made within various stipulated time limits.

The work deposits of \$89,813 shown on the balance sheet include the above mentioned \$82,000 as well as \$7,813 deposited in cash.

Subsequent to balance sheet date, the Company pledged a further \$39,200 in deposit receipts as security on the promissory notes mentioned above.

In addition to the above, Aquitaine Company of Canada Ltd., a participant in two of the joint ventures mentioned in Note 2, has satisfied certain work deposit requirements in the amount of \$970,149 by depositing its own promissory notes with the government agencies involved. These notes will be returned to Aquitaine in amounts equal to the allowable expenditures made within various stipulated time limits.

Should Aquitaine have to make any payment on these notes due to insufficient work, Sogepet would be required to contribute its share up to a maximum of \$114,696.

2. PETROLEUM AND NATURAL GAS EXPLORATORY PERMITS:

The Company is a participant in four petroleum and natural gas exploration ventures in the Hudson Bay area covering a total of 72,807,986 acres as follows:

Exploration group affiliation	Gross Acreage	Sogepet net Acreage
Aquitaine group	9,086,015	2,170,080
Aquitaine-Atlantic Richfield group	52,881,447	3,305,090
Texas Gulf group	7,792,163	1,558,433
Banner Petroleum group	3,048,361	609,672
	<u>72,807,986</u>	<u>7,643,275</u>

The Company's interest in certain of the Aquitaine group acreage and all of the Aquitaine-Atlantic Richfield acreage is subject to a gross overriding royalty varying from .2% to 1.0% of all petroleum substances produced from such acreage.

The Company has received an interest in a 3% gross overriding royalty on certain petroleum and natural gas exploratory permits in the Province of Manitoba in return for relinquishing its interest in such permits.

3. CAPITAL:

The following is an analysis of the Company's issued capital stock as at December 31, 1970:

	Common shares	Amount
For cash	1,195,803	\$1,406,915
For services	69,000	40,125
In consideration for subscribing to preferred shares	150,000	7,500
	<u>1,414,803</u>	<u>\$1,454,540</u>

During the year, the Company issued 3,750 shares to the Calgary manager for \$2,812 cash under an employee's incentive stock option granted in 1969. Subsequent to December 31, 1970, the office manager exercised his option on a further 3,750 shares at \$1.00 per share, leaving him with an option on 3,750 shares exercisable at \$1.25 per share within 30 days of July 1, 1971.

In addition, a former underwriter has an option to purchase 7,500 shares of the Company's capital stock at \$1.00 per share exercisable on or before March 19, 1971.

February 15, 1971

ACREAGE HOLDINGS		
GROUP	Group Gross Acres	Sogepet Net Acres
<u>Aquitaine Co. of Canada Ltd. — Operator —</u> Atlantic Richfield Canada Ltd. Elf Oil Exploration & Production (Canada) Limited Sun Oil Company Limited Canadian Fina Oil Limited Sogepet Limited	<u>Off-Shore</u> 52,881,447	<u>3,305,090</u>
<u>Aquitaine Co. of Canada Ltd. — Operator —</u> Sogepet Limited Elf Oil Exploration & Production (Canada) Limited Sun Oil Company Limited Teck Corporation Limited West Decalta Petroleum Limited Texas Gulf Sulphur Company Bralorne Petroleums Limited Canadian Fina Oil Limited	<u>Off-Shore</u> 3,364,307 Hudson Bay <u>Lowlands</u> 2,136,708 <u>James Bay</u> 3,585,000	<u>2,170,080</u>
<u>Texas Gulf Sulphur Company — Operator —</u> Sogepet Limited Teck Corporation Limited Canadian Homestead Oils Ltd.	<u>Off-Shore</u> 7,366,314 <u>North Islands</u> 425,849	<u>1,558,433</u>
<u>Banner Petroleums Limited (Trans-Canada Pipelines) — Operator —</u> Sogepet Limited Asamera Oil Corporation Ltd. Teck Corporation Limited	<u>Off-Shore</u> 3,048,361	<u>609,672</u>
TOTAL ACREAGE	<u>72,807,986</u>	<u>7,643,275</u>

SOGEPET LIMITED



